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SENSITIVE  
SIPDIS

DOE FOR PDAS JONATHAN ELKIND

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SUBJECT: MOVING TOWARD GREATER U.S.-EU ENERGY COOPERATION  
ON UKRAINE

Sensitive but Unclassified - not for Internet distribution.

¶1. (SBU) Summary. Special Envoy for Eurasian Energy Richard Morningstar and DOE PDAS for Policy and International Affairs Jonathan Elkind met with EU Commission officials on September 18 to discuss ways to move forward toward greater U.S.-EU Energy Cooperation on Ukraine. Both sides emphasized the importance of presenting a consistent message to Ukraine about the need for reforms in the energy sector. There was a general consensus that the U.S. and the EU should urge the EBRD and World Bank to insist that Ukraine meet the conditionalities for reform before providing any funding. The EU side emphasized, however, that funding from the IMF is more essential for Ukraine's economy and argued for "flexibility" in distributing the next tranche, even if conditions had not been met. Both sides agreed the IMF would make the final determination. Going forward it was agreed that the U.S. and EU should work to increase information exchanges (especially at the level of our respective Missions in Ukraine), to better coordinate our efforts to encourage reforms. The EU side welcomed the U.S.-EU Energy Council as a forum to give political impetus to these efforts, but stressed the ongoing need for continued coordination at an informal working level. End Summary.

¶2. (SBU) On September 18 Special Envoy for Eurasian Energy Richard Morningstar and DOE PDAS for International Affairs Jonathon Elkind met with EU Commission officials from DG-RELEX and DG-TREN to discuss opportunities for greater U.S.-EU energy cooperation on Ukraine. In the course of the two-hour long session, participants from both sides agreed that it is important for the U.S. and the EU to present a coordinated and consistent message to the Government of Ukraine (GoU) about the need for reform in the energy sector. Nonetheless, DG-RELEX officials declined an offer for the USG to join the EC and EBRD on October 2nd to deliver a joint message to the GOU. (Comment: Their hesitance to accept close USG engagement came in distinct contrast to the firm embrace from more senior EC officials, including Energy Commissioner Piebalgs. End Comment.)

¶3. (SBU) Hugues Mingarelli, Deputy Director General of RELEX, laid out a list of EU priorities for energy relations with Ukraine:

- Nuclear Safety. The EU has been a major donor on Chernobyl, and is currently carrying out a safety review of the other Ukrainian nuclear plants.

- Grid Integration. The EU's goal is to integrate the Ukrainian electricity and gas grids into the European system. To this end, the EU has been working to get Ukraine to join

the Energy Community. DG-RELEX is pleased with the progress on this front, noting that Ukraine's draft gas law appears compatible with the EU acquis.

- Energy Efficiency. The EU views improving energy efficiency in Ukraine as a key part of rationalizing the energy market there. The Commission is pleased with the initiative to this end proposed by the Swedish EU Presidency.

DG-RELEX noted that if you could move Ukrainian energy efficiency up to the level of western European countries you could completely eliminate their need for imported Russian gas. The EU is already providing 15 million euros for improving energy efficiency via the European Bank for Regional Development (EBRD).

- Modernization of Gas Transit. This is a major component of the EU's assistance to Ukraine. The GOU signed an action plan with the EU in March of 2009. The aim of this plan is to promote transparent and efficient operation of the line. To monitor progress, the EU has established a Technical Coordination Unit with the IFIs. The next meeting of the TCU will be Oct 22-24 in Kyiv. The U.S. has asked to be an observer to the TCU.

¶4. (SBU) On the question of the loan packages for Ukraine from international financial institutions (IFIs), both sides agreed to remain firm with Ukraine about the need to meet the conditionalities for reform imposed by the EBRD and World Bank (WB). The consensus was that GoU needs to recognize the necessity of implementing reforms in the energy sector and that it should not be rewarded for non-compliance. There was also a consensus that the EBRD and WB loans are not essential to Ukraine's solvency. DG-RELEX judged that Ukraine's

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progress on meeting the conditionalities has been lackluster so far and indicated that if things continue at this pace it is doubtful that Ukraine will get IFI funding in October.

¶5. (SBU) Going forward the EU considers the next critical period for Ukraine to be October 2009 to January 2010. The EU remains concerned that there will be a repeat of the Russia-Ukraine gas crisis, with the EU once again faced with gas cutoffs to vulnerable Member States. There was a general acknowledgement of the difficulties faced by Prime Minister Tymoshenko going into the Presidential election on January

¶17. DG-RELEX pointed out that the gas situation will be used as a political tool by all the candidates. As such, Mingarelli pointed to the difficulty Tymoshenko would face in trying to raise domestic gas prices and asked "How can we ask her to commit political suicide?"

¶6. (SBU) On the question of funding from the International Monetary Fund (IMF), DG-RELEX officials cautioned that if Ukraine does not secure the next tranche of IMF funding (Note: Fourth tranche of \$3.8 billion is scheduled for disbursement in mid-November, pending October review. End Note.) there could be serious consequences for Ukraine's economy. As such, DG-RELEX representatives advocated for "flexibility" in evaluating Ukraine's progress on loan conditionalities and disbursement of the next tranche. Both sides agreed the IMF would be in the lead in determining the fate of the loan.

¶7. (SBU) On next steps, the group agreed the U.S. and the EU should work to better coordinate efforts on Ukraine. DG-RELEX suggested the first step will be to encourage the respective Missions in Ukraine to work together more closely and share information about our respective initiatives. (Note: The Commission has proposed Oct 23 in Kyiv to meet with U.S. officials to review ongoing technical assistance programs. End note.) Participants welcome the U.S.-EU Energy Council as a forum for discussions on Ukraine, but also emphasized the importance of continued informal working-level exchanges.

18. (SBU) Ambassador Morningstar and PDAS Elkind have cleared this cable.

Murray

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